

FDIC State Profile

Summer 2004

Minnesota

Minnesota continues to lose jobs, but the pace is slowing.

- The Minnesota economy continued to lose jobs in the first quarter of 2004, although modest growth was seen in a few previous quarters, the overall economy has suffered severe losses since the second quarter 2001 (See Chart 1).
- The manufacturing sector posted gains for the second consecutive quarter, offsetting job losses in the government and services sectors. In the first quarter of 2004 the manufacturing industry added 1,200 jobs, following a gain of 700 jobs in the fourth quarter of 2003.
- The state's unemployment rate declined slightly to 4.7 percent in the first quarter of 2004, down from 5.1 percent in the fourth quarter of 2003, and below the nation's 5.6 percent unemployment rate.

Commercial real estate conditions in the Minneapolis MSA continue to soften.

- Office vacancy rates in the Minneapolis MSA increased to 20.1 percent in first quarter of 2004, due to negative absorption and new completions added to the sector.
- However, positive absorption trends, coupled with minimal new construction, are expected to allow vacancy rates to decline to the forecasted rate of 18.8 percent by the end of 2004 (See Chart 2).
- Vacancy rates in the area's industrial real estate market increased in the first quarter of 2004 to 10.5 percent, up from 10.3 percent in the fourth quarter of 2003. In addition to rising vacancy rates, the Minneapolis MSA experienced a 3.3 percent decline in net asking rents for the sector.

Higher prices for Minnesota's major agricultural commodities point to improved farm income in 2004.

- Commodity prices are projected to increase in 2004 because of strong domestic and export demand. In particular, soybean prices are forecasted to increase substantially due to a 2003 crop that was smaller than expected and strong export demand (See Chart 3).

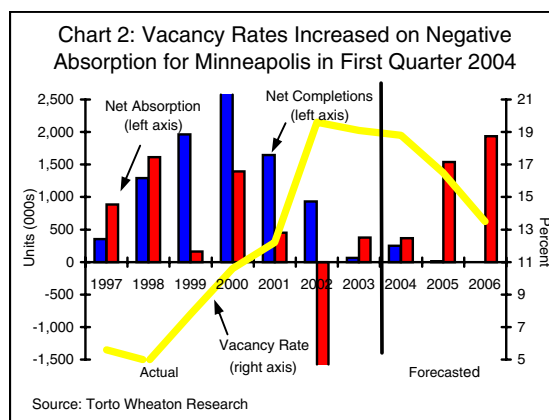
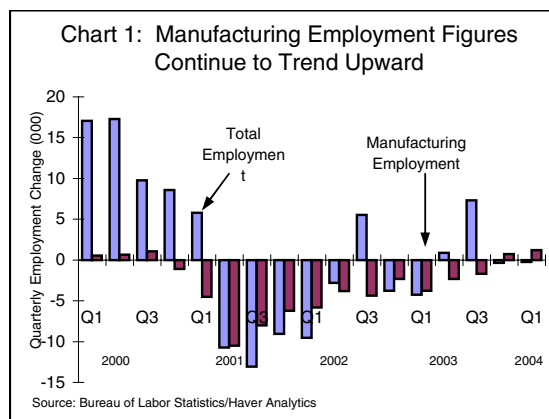


Chart 3: Commodity Prices Improved in 2003, and the Outlook Strong for 2004

	2001	2002	Est 2003	Proj 2004	Proportion of State's Ag Revenue
Corn	1.85	1.97	2.32	2.50	3%
Soybeans	4.54	4.25	5.53	6.35	18%
Wheat	2.62	2.78	3.56	3.55	18%
Cattle	72.71	67.50	84.69	85.00	12%
Hogs	45.81	34.92	39.45	45.50	14%
Milk	14.97	12.10	12.45	13.55	14%

Note: Grain prices are for marketing year of each crop.
Crop quantities are per bushel; livestock and milk are per hundredweight
Source: USDA/WASDE May 12, 2004

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- Results for cattle and hogs improved moderately in 2003, and are expected to continue through 2004. Cattle prices fell substantially with the USDA finding of a single case of bovine spongiform encephalopathy in December of 2003; however, prices have improved in the first quarter of 2004 to profitable levels. Hog operations are forecasted to see prices remain at current high levels due to strong domestic and export demand.
- The dairy sector is currently enjoying higher prices that are forecasted to continue through 2004.

Minnesota's metropolitan institutions have increased their commercial real estate exposure.

- Exposure to commercial real estate (CRE) has increased substantially the past few years despite weakening CRE market fundamentals in Minneapolis-St. Paul and other metropolitan areas (See Chart 4).
- Most of the growth is in nonresidential, nonfarm properties including owner-occupied business properties and construction and development properties, the latter of which is a historically higher risk CRE segment.
- Despite weakened market fundamentals and increased CRE loan volume, CRE delinquencies and net charge-offs remain low.

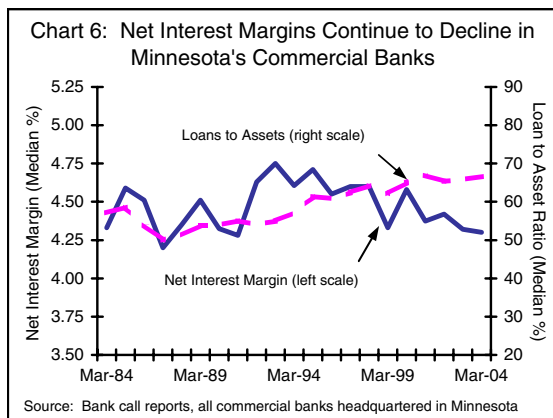
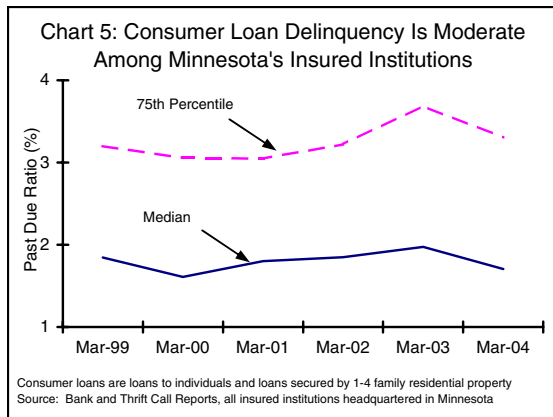
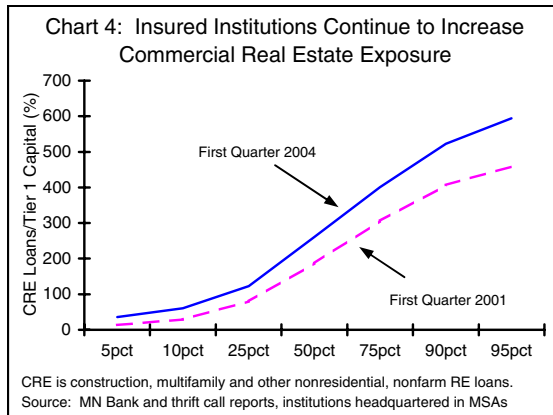
Minnesota's insured institutions continue to report satisfactory consumer loan quality.

- Consumer loan quality among Minnesota's insured institutions remains satisfactory, mirroring Regional asset quality conditions.
- Delinquency ratios declined in 2004 after slight increases in 2002 and 2003 during the worst of the economic downturn (See Chart 5). All but the top quartile of institutions reported past due ratios of 3.30 percent or less at March 2004.
- Net charge offs remain negligible as well, and loan loss reserve coverage remains strong.

Commercial banks in Minnesota continue to experience declining net interest margins.

- Net interest margins (NIMs) generally have been declining since 1993, excepting some recent volatility coinciding with interest rate movements over the past few years (See Chart 6).
- This NIM compression has occurred despite consistent growth in loan-to-assets ratios (LTAs). LTAs are now at levels not seen since 1980, preceding the 1980s agricultural crisis. The high LTAs at that time largely resulted from excessive lending to farm borrowers during a period of speculative farmland investing.

- Minnesota's commercial banks are currently generating the lowest profit per dollar of credit exposure than at any time during the past 25 years. Regardless, asset quality remains favorable and capital protection remains strong.



Minnesota at a Glance

General Information	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Institutions (#)	483	488	501	512	520
Total Assets (in thousands)	60,437,197	108,198,451	110,237,286	184,127,659	164,774,685
New Institutions (# < 3 years)	15	14	17	20	16
New Institutions (# < 9 years)	40	35	34	36	29
Capital	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Tier 1 Leverage (median)	9.09	8.93	8.84	8.94	8.81
Asset Quality	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Past-Due and Nonaccrual (median %)	1.72%	2.18%	2.20%	2.18%	1.87%
Past-Due and Nonaccrual >= 5%	63	79	70	63	48
ALLL/Total Loans (median %)	1.31%	1.31%	1.31%	1.26%	1.31%
ALLL/Noncurrent Loans (median multiple)	1.78	1.55	1.52	1.88	2.11
Net Loan Losses/Loans (aggregate)	0.08%	0.11%	0.33%	0.90%	0.55%
Earnings	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Unprofitable Institutions (#)	27	19	25	22	18
Percent Unprofitable	5.59%	3.89%	4.99%	4.30%	3.46%
Return on Assets (median %)	1.30	1.25	1.22	1.13	1.23
25th Percentile	0.82	0.77	0.75	0.72	0.80
Net Interest Margin (median %)	4.27%	4.29%	4.40%	4.35%	4.52%
Yield on Earning Assets (median)	5.80%	6.26%	7.00%	8.40%	8.20%
Cost of Funding Earning Assets (median)	1.48%	1.95%	2.63%	4.08%	3.71%
Provisions to Avg. Assets (median)	0.09%	0.10%	0.10%	0.10%	0.07%
Noninterest Income to Avg. Assets (median)	0.58%	0.61%	0.58%	0.60%	0.59%
Overhead to Avg. Assets (median)	2.94%	2.91%	2.94%	2.97%	2.94%
Liquidity/Sensitivity	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
Loans to Deposits (median %)	80.05%	77.45%	77.23%	78.14%	77.18%
Loans to Assets (median %)	67.53%	65.81%	65.65%	67.12%	65.33%
Brokered Deposits (# of Institutions)	139	129	133	130	126
Bro. Deps./Assets (median for above inst.)	3.81%	3.35%	2.53%	2.77%	2.60%
Noncore Funding to Assets (median)	13.53%	12.17%	12.27%	12.22%	11.68%
Core Funding to Assets (median)	75.04%	76.64%	75.96%	76.47%	77.09%
Bank Class	Mar-04	Mar-03	Mar-02	Mar-01	Mar-00
State Nonmember	318	319	326	336	334
National	117	120	126	126	135
State Member	26	27	27	28	29
S&L	10	10	10	10	10
Savings Bank	12	12	12	12	12
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	306	22,988,097	63.35%	38.04%	
Minneapolis-St Paul MN-WI	118	31,146,946	24.43%	51.54%	
St Cloud MN	22	2,612,104	4.55%	4.32%	
Duluth-Superior MN-WI	16	1,173,106	3.31%	1.94%	
Rochester MN	6	1,161,728	1.24%	1.92%	
Grand Forks ND-MN	6	369,957	1.24%	0.61%	
La Crosse WI-MN	5	229,803	1.04%	0.38%	
Fargo-Moorhead ND-MN	4	755,456	0.83%	1.25%	